



*Regional Inspector General
Pretoria*

memorandum

DATE: May 12, 2000

TO: Mission Director, USAID/Rwanda, Richard H. Goldman

FROM: Regional Inspector General/Pretoria, Acting, Dev P. Sen

SUBJECT: Audit of the Accuracy of USAID/Rwanda's Recipient Audit Universe,
Report Number 4-696-00-008-P

This is the final report on the subject audit. We received your comments to our draft report and included them in their entirety in Appendix II of this report. The report contains no recommendations.

I appreciate the cooperation and courtesies extended to my staff during the audit.

Background

Financial audits of contracts and grants are a primary basis for effective management and control of USAID's program expenditures. These audits are designed to provide USAID management reasonable assurance that transactions are properly recorded and accounted for; laws and regulations, and provisions of contract or grant agreements are complied with; and USAID-financed funds, property and other assets are safeguarded against unauthorized use or disposition.

In response to Congressional concerns, USAID has taken an active role in recent years using audits as a management tool to improve financial accountability of its programs. During 1991 and 1992, USAID revised its standard provisions for its contracts and grants, requiring annual audits of non-U.S. organizations disbursing USAID funds of \$25,000 or more. The threshold was increased to \$100,000 in May 1994 and to \$300,000 in July 1998.

In addition, USAID issued a General Notice in April 1992 defining the role of its missions in obtaining audits of their contracts, grants and cooperative agreements with non-U.S. organizations.

In May 1996, these requirements were incorporated into Chapter 591 of USAID's Automated Directives System (ADS) which, among other things, requires USAID missions to: (i) establish an audit management program; (ii) maintain an audit inventory database; and (iii) have audits done for non-U.S. grants, contracts and cooperative agreements that meet the audit threshold.

These initiatives are of far reaching consequence in preventing misuse of development funds and facilitating timely corrective actions by the USAID. Lack of adequate audit coverage constitutes an unacceptable risk because without such a control mechanism, financial accountability of program expenditures cannot be reasonably assured.

In March 1995, the Office of Inspector General (OIG) issued Audit Report No. 03-95-009 on USAID's implementation of its 1992 initiative to improve the financial management of its programs.

The report concluded that most missions had implemented the general requirements of the financial audit management program and established audit inventory databases. However, complete audit coverage was impaired as a result of obstacles arising from host government restrictions and local audit firms' lack of capabilities.

In March 1998, the OIG issued Audit Report No. 9-000-98-002-F on USAID missions' roles in obtaining audits of their contracts, grant and cooperative agreements. The report concluded that 11 of the 14 missions selected worldwide generally obtained audits of their contracts, grants and cooperative agreements as required by ADS Chapter 591. However, a significant number of required audits were not completed at 10 of the 14 Missions.

In May 1999, OIG management decided to verify the accuracy of USAID missions' recipient audit universe worldwide over a period of three years because lack of audit coverage was perceived as a high-risk area. Accordingly, RIG/Pretoria included an audit of this area in its fiscal year 2000 audit plan.

Audit Objective

RIG/Pretoria performed this audit to verify the accuracy of the recipient contracted audit universe at USAID Missions worldwide. The audit objective follows:

Is USAID/Rwanda's audit universe accurate and complete and were required audits conducted in a timely manner?

The audit scope and methodology are described in Appendix I.

Audit Findings

The audit found that USAID/Rwanda maintained an audit universe that was accurate and complete and that required audits were conducted in a timely manner. As of September 30, 1999, USAID/Rwanda had disbursed \$7,301,750 to 23 U.S organizations, 2 non-U.S. organizations and 2 international private voluntary organizations. The table below provides a breakdown of these disbursements by recipient and type of agreement:

| | U.S. | | Non-U.S. | | International PVO | | Total | |
|-----------------------------------|-------------------------------------|-----------|-------------------------------------|----------|-------------------------------------|----------|-------------------------------------|-----------|
| Type of Agreement | Disbursements and No. Of Recipients | | Disbursements and No. Of Recipients | | Disbursements and No. Of Recipients | | Disbursements and No. Of Recipients | |
| Contract | \$454,796 | 7 | - | - | - | - | \$454,796 | 7 |
| Host-country owned Local Currency | - | - | 177,757 | 1 | - | - | 177,757 | 1 |
| Grant | 2,400,610 | 7 | 614,225 | 1 | 2,194,893 | 2 | 5,209,728 | 10 |
| Cooperative Agreement | 1,459,469 | 9 | - | - | - | - | 1,459,469 | 9 |
| TOTALS | \$4,314,875 | 23 | \$791,982 | 2 | \$2,194,893 | 2 | \$7,301,750 | 27 |

We ascertained that: (1) the Mission's audit database inventory was complete and included all U.S. and non-U.S. recipients meeting the audit threshold, (2) required audits were completed on a timely basis, and (3) audit reports were prepared in accordance with USAID's guidelines on financial audits. With regards to the two non-U.S. recipients that met the threshold (listed in the above table), we verified that both received the required audit coverage as of September 30, 1999.

One of these recipients involved a grantee funded with host-country owned local currency which received coverage through an USAID-contracted audit, instead of a recipient-contracted audit, since the Mission had concerns about the grantee's ability to have an audit performed.

In addition, we noted that the Mission took actions to implement an audit management program in accordance with the requirements of ADS Chapter 591 which included:

- establishing a Management Control Review Committee to monitor the status of the Mission's audit program and to assure that its audit responsibilities were carried out;

- designating an audit management officer to coordinate and monitor the Mission’s financial audit program and follow up on implementation of Recipient-contracted audit recommendations;
- including required audit clauses in its grants and contracts and budgeting funds for audits;
and
- maintaining an automated inventory of contracts, grants, and cooperative agreements requiring audits and to track such audits.

Management Comments and Our Evaluation

USAID/Rwanda management concurred with the result of no audit findings in this report and expressed their appreciation of RIG/Pretoria’s continuing support with regard to the Mission’s audit coverage.

SCOPE AND METHODOLOGY

Scope

The audit was performed in accordance with generally accepted government auditing standards and assessed whether: (1) USAID/Rwanda's audit universe was complete and accurate, and (2) required audits were done in a timely manner.

In an earlier USAID-wide audit titled, "Worldwide Audit of Selected Missions' Role in Obtaining Audits of Their Contracts, Grants and Cooperative Agreements" (Report No. 9-000-98-002-F, March 20, 1998), the OIG provided coverage over recipient financial audits which had been completed as of October 31, 1996. Therefore, we obtained information on audits completed after that date.

Field work was performed at USAID/Rwanda in Kigali, Rwanda from February 5 through March 4, 2000 and covered \$791,982 in USAID disbursements. The audit scope included:

- (1) reviewing the Mission's audit management program and related documents,
- (2) interviewing cognizant Mission officials, and
- (3) reviewing the Mission's automated database universe of contracts, grants, and cooperative agreements and identifying those that require audits

In addition, we obtained information on: (1) total disbursement for all grants, contracts and cooperative agreements (U. S. and non-U.S.) for USAID's latest fiscal year ended September 30, 1999 and, (2) the number and amount of grants, contracts and cooperative agreements falling below the audit threshold of \$300,000 to obtain a complete picture of the Mission's portfolio.

The audit criteria principally comprised of Chapter 591 of USAID's Automated Directives System (ADS) and the OIG's "Guidelines for Financial Audits Contracted by Foreign Recipients" (Guidelines), revised in July 1998.

Methodology

The methodology included: (1) reviewing the Mission's audit inventory database system to determine if it contains the information needed to monitor and track required audits, and (2) examining documentation, and (3) conducting interviews with cognizant officials to determine whether the Mission has met its responsibilities established by ADS Chapter 591 and the Guidelines.

To answer our audit objective, we obtained the universe of USAID/Rwanda's grants, contracts and cooperative agreements and determined the number and dollar amounts of all agreements with non-U.S. organizations subject to audit coverage at September 30, 1999. The above information was obtained from the Mission's contract files and the Mission Accounting and Control System (MACS) database. We then ascertained whether: (1) such agreements were included in the Mission's audit database inventory, (2) required audits were completed on a timely basis, (3) audit reports were prepared in accordance with USAID's guidelines and sent to RIG/Pretoria for desk review, and (4) the agreements contained the required audit clauses.

We did not verify the reliability of the Mission's computer-generated data. Also, because of the small size of our audit universe, we did not use a materiality threshold and considered even one exception as significant for reporting purposes.



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MEMORANDUM

April 19, 2000

TO: Joseph Farinella, RIG/Pretoria

FROM: Richard Goldman, Director, USAID RWANDA

SUBJECT: Response to Audit report on Audit of Rwanda's Recipient Audit
Universe

As requested, we hereby provide our response to subject audit:

We appreciate the continuing support of the RIG/Pretoria staff with regard to audit coverage and agree with the result of no audit findings in this report.

Regards.